



“JK Tyre & Industries Limited
Q3 FY '23 Earnings Conference Call”

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MODERATOR: **MR. BASUDEB BANERJEE – ICICI SECURITIES LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the JK Tyre & Industries Limited Q3 FY '23 Earnings Conference Call, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Basudeb Banerjee, Vice President at ICICI Securities Limited. Thank you, and over to you, sir.

Basudeb Banerjee: Thanks to JK Tyre's management for giving us the opportunity to host the Q3 FY '23 Post-Result Call. We have with us the senior management of JK Tyre's, represented by Mr. Anshuman Singhania, Managing Director; Mr. Arun Bajoria, Director and President, International; Mr. Anuj Kathuria, President, India; Mr. Sanjeev Aggarwal, Chief Financial Officer; and Mr. A. K. Kinra, Financial Advisor. So over to the management of JK Tyre's for initial comments. Post that we will take the Q&A. Over to you.

Anshuman Singhania: A Good morning everyone and a very warm welcome to JK Tyre's Q3FY23 Earnings Call and thank you all for joining us today. I am Anshuman Singhania, Managing Director and I have with me Mr. Arun K. Bajoria, Director & President – International, Mr. Anuj Kathuria, President – India, Mr. A.K. Kinra, Financial Advisor and Mr. Sanjeev Aggarwal, CFO of the Company. On behalf of JK Tyre family, I wish you all a very happy and prosperous new year 2023.

We are happy to share that JK Tyre is celebrating 25 years of its acquisition of Vikrant Tyre plant at Mysore. JK Tyre took over the Vikrant plant in 1997 and turned it into a state-of-the-art facility backed by world-class "Dr. Raghupati Singhania Centre of Excellence" for research & development. The capacities and revenues from this plant have grown multifold since acquisition, leading into a very successful investment.

Recently, JK Tyre hosted the 18th edition of Indian Car of The Year (ICOTY) and Indian Motorcycle of The Year (IMOTY) awards 2023, the most coveted and prestigious awards in the Indian Automotive Industry, a platform created by JK Tyre. This represents our zeal towards honoring innovation and technology in the Indian automotive industry.

Quarter 3 witnessed strong performance across all key parameters, viz., "significant revenue growth, higher volumes and improved operating margins." We continued to maintain our profitability growth in Q3 with strong performance across segments through our focused actions, both on products and market front, which led us to achieve double digit revenue growth of 17%. Our profit margins improved, supported by softening in raw material prices, continued focus on cost control and timely price revisions.

Overall volumes increased on account of higher OEM offtakes. Replacement demand continues to be buoyant. Exports continued to remain resilient and recorded a revenue of Rs.484 crore in the third quarter, despite global headwinds.

Automobile Industry continue to witness buoyant demand in CV segment during the quarter. The growth in commercial vehicle sales was majorly led by MHCV. CV growth is expected to trend further up in near to medium term supported by larger allocation of funds for infra capex in the recently announced Union Budget.

The passenger vehicle (PV) sales were also higher with the change in preference towards UVs and rising thrust for personal mobility. Currently, the order book and volumes with major passenger vehicle manufacturers remain healthy.

On the overall tyre sector outlook, we believe that the domestic automotive sector has significant potential of growth, driven by aggressive stance of govt. to improve infrastructure spends, higher fleet utilization and implementation of the scrappage policy. The rising demand for personal vehicles will be driven by higher disposable incomes of middle class. Further, increased agricultural output should foster rural demand. These tailwinds coupled with tapering inflation shall continue to boost the tyre sector demand.

On export front, we expect the momentum to gain strengths in coming quarters considering our wide-spread presence in the export markets, product positioning and our enhanced capabilities specially in PCR tyres.

The government has laid down concrete measures around e-vehicles transition and green energy to propel the adoption of green mobility. We believe that EV segment will further gain momentum with the government visionary actions towards creating awareness and creation of EV infrastructure in the country.

To strengthen our product portfolio, we have recently launched low RRC tyres in PCR and TBR range and also introduced smart tyres range for the EV SUVs. We have full range of EV tyres to cater to the various market segments. We are further strengthening our relationship with OEMs by jointly developing tyres for their specific requirements.

Operating margins improved sequentially by about 150 bps on account of softening raw material prices and continued focus on cost control. We expect margins to improve in coming quarters with further softening likely in raw material prices.

We are committed to bring in best-in-class products to cater to diverse market segments, operational excellence and continue to deliver improved performance.

I am happy to inform that International Finance Corporation (a member of the World Bank Group), the largest global development institution, has approved the proposal to invest in the Company Rs.240 crore in Compulsorily Convertible Debentures (CCDs) on preferential issue basis, carrying a coupon of 6% per annum, which will be converted into equity shares of the face value of Rs.2 per share at a conversion price of Rs.180.50 per share. The Board of Directors in its meeting held on February 03, 2023 approved the above investment by IFC.

Now, I request Mr. Arun Bajoria to talk about the performance of JK Tornel, Mexico.

Arun Bajoria:

Thank you, MD sir. JK Tornel Mexico continued to perform well in terms of overall revenue and profitability. During the quarter, JK Tornel achieved a turnover of RS. 608 crores as compared to RS. 521 crores in Q3 of financial year '23, registering a healthy growth of 17%. Operating profits EBITDA stood at RS. 48 crores vis-a-vis RS. 46 crores in the corresponding quarter, a slight improvement. Quarter three is generally a muted quarter on account of lower number of working days due to the Christmas holidays in December.

During the quarter, exports demand was impacted in North American and Latin American markets due to macroeconomic headwinds. However, we believe that the global demand situation will improve amidst easing in inflationary pressures in the coming quarters.

JK Tornel continues to remain the largest tyre supplier to all the mass merchandisers in Mexico; that is Walmart, Soriana, Chedraui, Elektra, Coppel, CASA Ley, Suburbia and Comercial Mexico. JK Tornel also continues to command highest PCR market share in the PCR replacement market with a share of over 12%, and this is the highest market share in Mexico.

We are happy to share that JK Tornel received Best Supplier Award by both Walmart and Soriana, largest mass merchandising stores in Mexico. The award has been given out of 300-plus suppliers in home and essentials category. JK Tornel has also achieved the status of being highest seller of tyres on online platform with a market share of 50%.

JK Tornel has secured the prestigious four-star rating for British Council Sword of Honor Award.

Since the acquisition of JK Tornel, there has been a significant growth in business operations and has resulted in yielding multi-fold value creation for its parent company that is JK Tyre India. Thus, it has been a successful strategic investment for JK Tyre.

Now, I would request Mr. Aggarwal, company's CFO, to brief about the financial performance of this quarter.

Sanjeev Aggarwal:

Thank you sir, let me briefly highlight the financial performance in Q3FY23. The consolidated sales were recorded at Rs.3,623 crore, viz-a-viz Rs.3,084 crore in Q3FY22, registering an increase of 17% on y-o-y basis. The average capacity utilisation was 88% with radial capacity at even higher utilisation during the quarter. In first nine months of FY23, sales were recorded at Rs.11,037 crore, an increase of 27% on y-o-y basis, majorly contributed by higher volumes. Export revenues from India were recorded at Rs.484 crore in Q3FY23.

Profitability at EBDITA level in Q3FY23 was recorded at Rs.349 crore as against Rs.281 crore in Q3FY22, an increase of 24% on y-o-y basis. Operating profit margins were recorded at 9.6%, margins, an increase by about 150 bps over the previous quarter. Cash profit for the quarter stood at Rs.228 crore and Profit before tax (PBT) stood at Rs.113 crore.

The balance sheet of the company is healthy and leverage ratios remains within the acceptable levels. We remain committed to deleverage our balance sheet through reduction in long term borrowings going forward.

The already announced capacity expansion capex in PCR and TBR tyres are under implementation stage and progressing well. Now, we open the forum for question-and-answers.

Moderator: The first question comes from the line of Jinesh Gandhi from Motilal Oswal Financial Services.

Jinesh Gandhi: Quickly wanted to check how does the revenue growth breakup between volume growth and pricing growth in third quarter?

Anshuman Singhania: The volume growth was at 4% and the price increase was at 14%. So overall, there was a growth of 18% at a consolidated level.

Jinesh Gandhi: And India replacement market was stable it seems, while revenues grew about 7%, 8% and that could be largely pricing-led, right?

Anshuman Singhania: The replacement market saw volume growth to the tune of 8%.

Jinesh Gandhi: In India?

Anshuman Singhania: Yes.

Jinesh Gandhi: Because I was looking at the mix and it suggested about 8% kind of revenue growth and therefore, you would have seen a healthy pricing growth as well. So, there is some disconnect. And second question pertains to the RM cost related benefit which we saw in this quarter. Would it be between 3 percentage points to 4 percentage points in terms of RM cost benefit, or it was lower than that?

Anshuman Singhania: Well, the RM cost has definitely benefited us, in this quarter. The softening in the RM impact is seen majorly at the end of the quarter. The full impact of the reduction will be seen in the coming quarters.

Jinesh Gandhi: And lastly, if you can talk about the price hike taken in the third quarter in the replacement market and any price hike taken in fourth quarter so far?

Anshuman Singhania: We have definitely taken the price increase in the third quarter. As I have mentioned to you, the overall price increase was in the tune of about 1- 2%.

Jinesh Gandhi: And any price hikes in Jan so far, or not yet?

Anshuman Singhania: No, we have not yet taken any price increase in January.

Moderator: Our next question is from the line of Ashutosh Tiwari from Equirus Securities.

Ashutosh Tiwari: So, hi, sir. What is the debt number currently -- net debt number?

Sanjeev Aggarwal: The net debt as on December 31, 2022 was RS. 4,900 crores on a consolidated basis.

Ashutosh Tiwari: It was around RS. 5,000 crores last quarter. So, there is some reduction over there, right?

- Sanjeev Aggarwal:** Yes.
- Ashutosh Tiwari:** And secondly, if I look at India operations, other expenses have gone up on a quarter-on-quarter basis as a percentage of sales. So, any particular reason behind that?
- Sanjeev Aggarwal:** So, the other expenses have gone up because of the various factors, including due to the increase in energy prices and also the higher capacity utilization level across plants. So, that is the reason for increase in the other expenses.
- Ashutosh Tiwari:** And exports side, you mentioned RS. 484 crores revenue for the quarter. What was the number during the second quarter? Because if I look at the presentation, it says around 16% of India sales are exports and that number will come to around RS. 400 crores, while you mentioned RS. 484 crores. There is some disconnect in the presentation in this. Or am I missing something over there?
- Sanjeev Aggarwal:** The total amount of exports in Q3 was Rs.484 crores from India, which is more or less the same on corresponding basis. So, it's a kind of a flattish quarter as far as the exports are concerned.
- Ashutosh Tiwari:** But in the presentation, you have mentioned 16% of India's sales as exports and that number is only coming to RS. 400 crores. So, where the disconnect is with this number and the PBT number?
- Sanjeev Aggarwal:** We will check and get back to you, but it may be clarified that 16% exports revenue in the third quarter is on the basis of sales from India.
- Ashutosh Tiwari:** Maybe I'll take it offline. There is some disconnect. Lastly, on the demand side, how do you see, especially in the truck segment, the replacement demand in this quarter, how is it going?
- Anshuman Singhania:** Well, on the demand side, the overall tyre industry looks good. We believe that domestic automotive sector has a significant potential of growth, driven by govt. aggressive stance, as I mentioned in my speech, the government has increased infrastructure spend, higher fleet utilization and the implementation of scrappage policy. Demand in the personal vehicle space will be driven by higher disposable incomes of the middle class.
- Further, agriculture output will also foster well for the rural demand. These tailwinds, coupled with tapering inflation should also continue to boost the tyre demand. For the CV segment the freight movement and the core industry picking up, we see good demand coming ahead.
- Sanjeev Aggarwal:** Just to clarify again that point of exports, if you are referring to the page number 16 of presentation. The first portion of the pie is showing 16% revenue from exports for India operations and the second one is on a consolidated basis. This includes foreign exports.
- Ashutosh Tiwari:** But 16% is what number? I mean, is it India standalone reported revenue?
- Sanjeev Aggarwal:** This is including Cavendish exports.
- Moderator:** We'll take our next question from the line of Mitul Shah from Reliance Securities.

- Mitul Shah:** Sir, I have question on export side. Based on the export number given in the presentation, it seems that export from the Tornel declined sizably Q-on-Q. So, can you give some detail here?
- Anshuman Singhania:** That I'll request Bajoria ji to please take this.
- Arun Bajoria:** That is mainly because, there is Christmas holidays in the month of December, which starts from 20th, 21st of December and then the plant reopens only after 4th and 5th of January. So, it is only because of the lesser number of working days.
- Mitul Shah:** Can you say, sir, Tornel's export contribution in overall Tornel's financials.
- Arun Bajoria:** It is about 40% of the total sales of JK Tornel.
- Mitul Shah:** And second thing on Mexico operations, if you can give more details, the way we explained about Cavendish, if you can highlight those details for Mexico also and your outlook on the same?
- Arun Bajoria:** Well, JK Tornel Mexico has achieved a turnover of RS. 608 crores in Q3 of financial year '23 vis-a-vis RS. 521 crores in Q3 of financial year'22, 17% growth on year-on-year basis and EBITDA for the quarter stood at RS. 48 crores as against RS. 46 crores in the corresponding quarter. Operating margins stood at 8% in Q3 of financial year '23 as against 8.8% in Q3 of financial year '22. So, this is the brief performance of JK Tornel Mexico for this quarter.
- Mitul Shah:** Sir, lastly on Mexico side, how much would have been price hike during the quarter last one year and anything we have done in Jan, Feb?
- Arun Bajoria:** Well, last quarter has been very nominal, maybe about 1.5% or 2% at the most, but more price increases were taken in Q1, Q2 and Q3. I'm saying this because in Mexico, the calendar year is what we consider as a whole year, January to December 2022, although for consolidation purpose, we are taking from 1st April '22 to 31st March '23.
- Mitul Shah:** Any price hike in January, February?
- Arun Bajoria:** No, that we will have to see because at this point of time there is a slight reduction in the raw material input prices and therefore, we are still watching the situation how stable this decrease is going to continue to, and only then we will take a view.
- Moderator:** Our next question is from the line of Tushar, an Individual Investor.
- Tushar:** My first question is on the fundraise side that you have announced of RS. 240 crores. My question is when we have enough cash flow, like an average of RS. 150 crores per quarter, so what is the purpose of this fundraise?
- Anshuman Singhania:** I'll give this question to Sanjeev ji, please.

Sanjeev Aggarwal: Well, this is for the purpose of funding our capex plan, which is undergoing and also the future capex plans and also for general corporate purpose, to strengthening the balance sheet of the company.

Tushar: And my second question is, what will be the future volume growth expected for next two years, three years?

Anuj Kathuria: Yes. So, as we have been seeing that after the recovery from the pandemic, we think that this year we are seeing good growth and we expect that the overall automotive industry in a upcycle. So, this is expected to grow further. For the immediate next fiscal, which is FY '24, we expect that the overall automotive industry would grow at a high single-digit around 8% to 9% and different segments would also be growing in that similar range.

So once the automotive industry has this kind of a growth, the tyre industry we have seen, follows the similar trend, or actually has a slightly better growth than the overall automotive industry. So, this is what we expect and this upcycle will definitely last into FY '25 as well.

Tushar: And my last question is on the interest cost side. Why the interest cost went up in this quarter? And will it go up further or you expect it to come down in the coming quarters?

Sanjeev Aggarwal: So, as you would be aware, that there has been a significant increase in the interest rate scenario. In India, there is an increase of 2.25% in the repo rate by the Reserve Bank of India and similar rather more aggressive increase we have seen in the case of the LIBOR and SOFR rate. So, the banks have actually transitioned the entire increase, but of course, we have been able to negotiate better with banks to lower this impact. That is the reason of increase in interest cost and this has all happened in the last about seven to eight months period.

Going forward, I think there would not be any significant increase in interest cost.

Moderator: Next question is from the line of Yash Agarwal from IIFL Securities.

Yash Agarwal: Yes. Sir, firstly, congratulations on a great set of numbers. I just had one question on the replacement segment. On an industry level, while the OEMs -- the demand from the OEM is pretty good, replacement is facing some kind of weakness. So, what is the case with JK Tyre?

Anshuman Singhania: No, as you correctly said, the OEM is coming back very strongly. The replacement market is also coming back because the core sector industries have started moving and picking up well. So, the demand story is very clear. So, this is going to be fuelling the replacement market much better than before and we are very optimistic that the replacement market will pick up.

Anuj Kathuria: Just to add, Actually OEM is bouncing back from a low base, whereas replacement demand has not dipped during the previous year. So, it's actually on a good base, we are still seeing a good growth. But yes, it doesn't match the OE because of the base effect basically.

Moderator: Our next question is from the line of Raj from Navodaya Enterprises. Please go ahead.

- Raj:** My question is what will be the effect of the duty hike on compounded rubber on the margin?
- Anshuman Singhania:** Well, the import duty increase has a marginal impact. We will offset this through various extensive cost reduction measures. Further, our priority is to maximize domestic procurement. So, we see this as very marginal impact.
- Raj:** My second question is what is, the reason behind the sale and profit drop in Mexico's operation on quarter-on-quarter basis?
- Arun Bajoria:** Yes, there is a slight drop, mainly because of the exports that has reduced in the month of December '22 and that has brought down the quarter exports to a lower level than what it was in October, December '21. But going forward, as I had mentioned in my opening remarks that things are looking good. And you see, this is mainly that the freight rates during this time, December '21 and October/December '21, and also earlier, July/September '21, they had shot through the roof.
- And suddenly now in the last six months, that is H2 of 2022, financial year '23, these freight rates have come down drastically. So, with the result all the dealers there have been sitting on much higher cost inventory and that is the reason that we have not been able to clock that kind of higher export sale because obviously, they are trying to clear those inventories which are higher cost. But going forward, I think the situation will definitely equalize and be continuing to do better.
- Raj:** Sir, last question, as you said that your other expenditure is higher due to higher utilization, so my question is will they be in 13% to 14% of sale or what, in the future?
- Sanjeev Aggarwal:** Yes, you are right, the other expenses are in the 13-14% range of the net sales. So, we are continuously controlling cost and with the further reduction in energy prices probably we can expect some reduction going forward. But the overall percentage of other expenses will remain in the same range or maybe slightly lower.
- Moderator:** The next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.
- Ashutosh Tiwari:** Can you please share the Cavendish numbers for this and last quarter?
- Anshuman Singhania:** So, the Cavendish revenue for the quarter three FY '23 was RS. 976 crores, and the corresponding quarter was RS. 720 crores, there is growth of 36%
- Ashutosh Tiwari:** And what was the number in the second quarter?
- Anshuman Singhania:** Second quarter RS. 982 crores.
- Ashutosh Tiwari:** And what was the EBITDA number over there, EBITDA for the last quarter?
- Anuj Kathuria:** EBITDA for Cavendish quarter three was 9.7%.
- Ashutosh Tiwari:** 9.7%?

- Anuj Kathuria:** Yes.
- Ashutosh Tiwari:** So, there is an improvement. And what was the number for the previous quarter -- this second quarter, EBITDA number?
- Anuj Kathuria:** Second quarter was 6.3%.
- Ashutosh Tiwari:** There's a good improvement over there in Cavendish.
- Anuj Kathuria:** Yes, we had a good capacity utilization as well, good improvement.
- Ashutosh Tiwari:** And what was the number last quarter? What was the utilization level in the third quarter?
- Anuj Kathuria:** Kindly repeat your question?
- Ashutosh Tiwari:** What was the utilization level you said -- utilization level in Cavendish in the last quarter?
- Anuj Kathuria:** Utilization level for quarter three was 92% as compared to the previous quarter at 82%.
- Ashutosh Tiwari:** As per numbers you shared, there's a drop-in revenue in this quarter versus second quarter, Rs. 982 crores going to Rs. 976 crores. So, was the production higher than sales in this quarter?
- Anuj Kathuria:** So, actually, the sales in quarter two was basically coming out of the product mix. We had sales of a different product mix in quarter two. Quarter three, we saw more of the two, three-wheeler segment also picking up from Cavendish, which gives the volumes and capacity utilization, but maybe the top line is not that equivalent to the TBR.
- Ashutosh Tiwari:** So, mix was better in terms of higher two-wheeler contribution. And also, lastly on the capex part. How much capex we plan to do in this year and next and what is the capacity addition from that?
- Sanjeev Aggarwal:** As I mentioned, the total amount of capex, which is under implementation as of now is on account of two projects. One is for PCR capacities, which is in JK Tyre for Rs. 530 crores and the other one is in the TBR for Rs.260 crores in CIL, Cavendish Industries.
- Ashutosh Tiwari:** And what would be the capacity increase from these two capexes?
- Sanjeev Aggarwal:** So, the increase is about 16-17% in PCR capacity and 10% approximately 10% in TBR capacity.
- Ashutosh Tiwari:** Right. 10% only at Cavendish or overall?
- Sanjeev Aggarwal:** Overall TBR capacity.
- Moderator:** Our next question is from the line of Aryn Pirani from J.P. Morgan.
- Aryn Pirani:** My question was actually with respect to the anti-dumping duty on Chinese truck radials. As far as I understand, the duty was up for review because it expired in August or September of last

year. So just wanted to get a sense on update from the government regarding the status of the same? And on the ground, does the anti-dumping duty continue to be operational?

Anshuman Singhania: As there is a Counter Veiling Duty (CVD) in place on import of TBR tyres from China, which is restricting imports of truck radial coming into India. We believe the removal of anti-dumping duty will have a marginal impact on import of tyres from China.

Amyr Pirani: But do we know if the anti-dumping duty continues to be operational while the government is deliberating on the same, or has it been withdrawn for the time being?

Anshuman Singhania: For the time being, it is withdrawn.

Amyr Pirani: For the time being, it has been withdrawn. So, are we then seeing an influx of tyres from China or an increase in competition from that side or you are saying the CVD is still helpful enough?

Anshuman Singhania: No, right now, the countervailing duty is helping, and we are not seeing any major influx coming into India from China.

Moderator: As there are no further questions from the participants, I would now like to hand the floor back to the management of JK Tyre for closing comments. Over to you, sir.

Sanjeev Aggarwal: I once again thank you for joining us today for the Q3FY23 investors call and we hope we able to reply to your questions to your satisfaction. I on my behalf and on behalf of JK Tyre Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.